



FY 2006 Power Rates Financial-Based & Safety Net Cost Recovery Adjustment Clauses

September 8, 2005



Overview

- The FY 2006 average non-Slice wholesale power rate will be about 1.6 percent lower than the FY 2005 average rate.
- The administrator decided not to set the Safety Net CRAC adjustment to zero because of the uncertainties the agency faces in FY 2006. Those risks include:
 - The possibility of additional court-ordered salmon passage measures
 - Potential litigation costs
 - Exposure to public agency customers requesting payments under the Residential Exchange Program
- For the first time since FY 2003, the FB CRAC will not collect an amount equal to the maximum amount allowed. Therefore, it is possible that there will be an FB CRAC True-up in the second half of FY 2006 based on FY 2005 audited actual financials if actuals differ by more than \$5 million from the 3rd quarter forecast.



Adjustment to the 3rd Quarter Forecast

- BPA discovered that the FY 2005 Third Quarter Review forecast, which was the initial basis for its calculation of FY 2006 rates, included a forecast of Energy Northwest retired debt that was understated by \$40 million.
- This has an indirect impact on the rate calculation because it affects the Slice true-up forecast, which resulted in an expected \$8 million increase in the forecast of the Slice true-up payment to BPA.
- The change in the Slice true-up forecast increased the expected PBL modified net revenue by \$8 million, resulting in slightly lower Financial-Based and Safety Net CRACs for FY 2006.
- The PBL 3rd quarter forecast of FY 2005 ANR is now (\$393M) compared to (\$401M) reported at the August 9th workshop.



Financial Summary and Key Indicators

		FY 2005			FY 2006		
		Aug '04 Forecast	FY05 2nd Qtr. Review	Forecast based on UPDATED FY05 3rd Qtr. Review	Aug '04 Forecast	Forecast at time of FY05 2nd Qtr. Review	Forecast at time of UPDATED FY05 3rd Qtr. Review
	\$ in Millions						
1	PBL Net Revenues	\$ 109	\$ 122	\$ 214	\$ (64)	N/A	\$ 173
2	PBL Modified Net Revenue	\$ 90	\$ 23	\$ 126	\$ (13)	N/A	\$ 109
3	FB/SN Accumulated Net Revenue (ANR)	\$ (429)	\$ (496)	\$ (393)	\$ (443)	N/A	\$ (284)
4	Ending BPA Reserves	\$ 408	\$ 364	\$ 541	\$ 351	N/A	\$ 507
5	1-Year TPP	86%	100%	100%	96%	N/A	96%
6	Total Rate	\$ 30.0	\$ 30.1	\$ 30.1	\$ 30.7	\$ 32.2	\$ 29.6
7	LB CRAC	23.3%	23.7%	23.7%	23.6%		26.5%
8	FB CRAC	11.2%	11.2%	11.2%	9.6%		4.4%
9	SN CRAC	0%	0%	0%	4.1%		1.8%
10	Total CRAC %	35%	35%	35%	37%		33%
11	Net Secondary Revenue Forecast	\$ 542	\$ 460	\$ 560	\$ 470	N/A	\$ 540
12	Annual Weighted Avg Net Sales Price (\$/MWh)	\$ 27.93	\$ 44.35	\$ 46.58	\$ 24.68	N/A	\$ 29.82
13	Hydro Volume Forecast (maf)						
13a	Oct - Sept (RFC)	134	104	112	134	134	134
13b	Jan - July (RFC)	103	74	82	103	103	103
14	BiOp Modeling Assumptions	2000 BiOp	2004 BiOp	2004 BiOp with Modified Spill	2000 BiOp	2000 BiOp	2004 BiOp

FB/SN CRAC
FY 2006 Threshold: \$334M (established Aug. '04)
FY 2006 FB CRAC Cap: \$175M
FY 2006 SN CRAC Cap: \$290M

Total Revenue to be Recovered
FY 2005 3 rd Quarter ANR minus FB/SN CRAC Threshold = Amount Recoverable
\$393M - \$334M = \$59M



FY 2006 Rates Summary

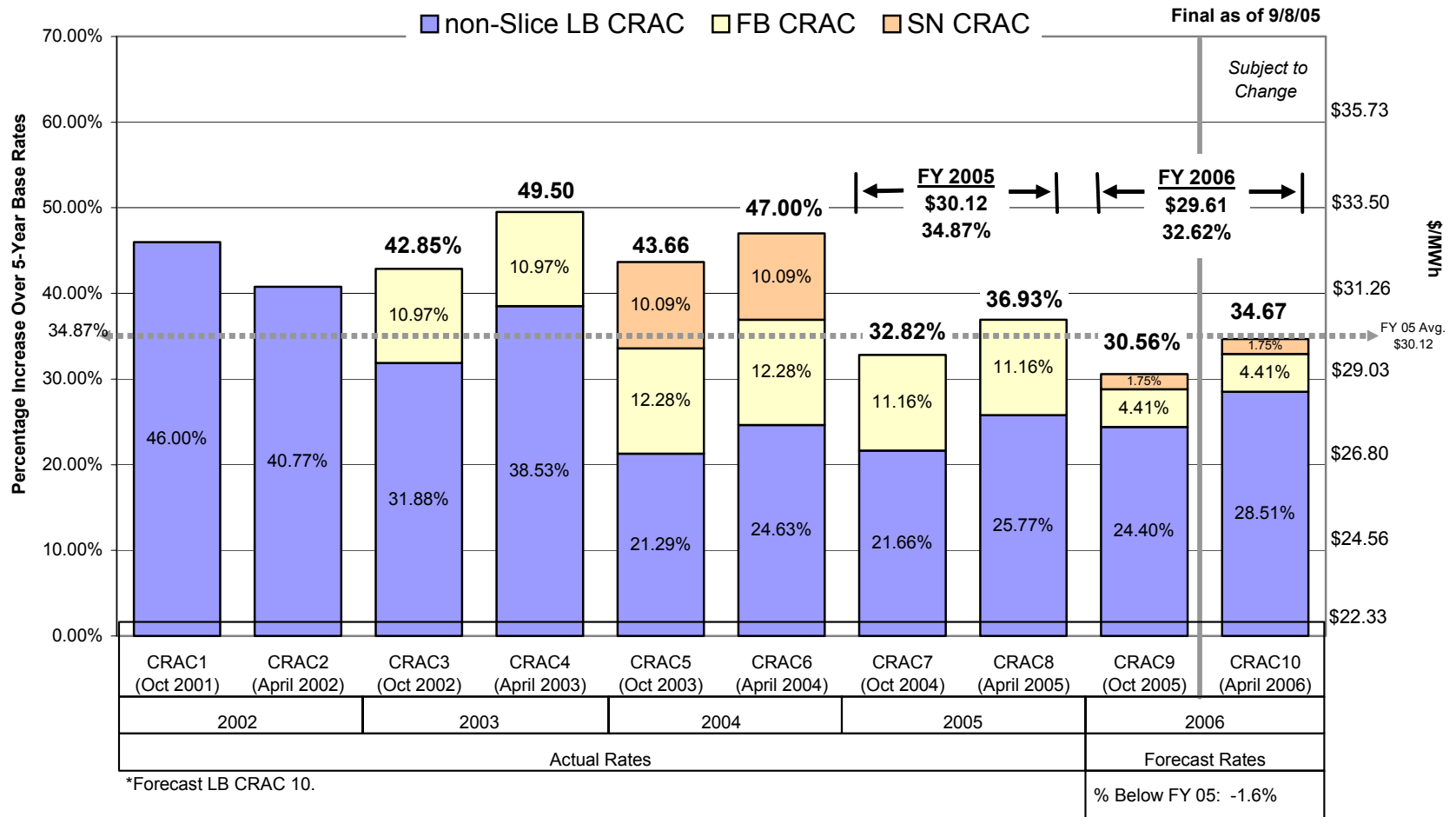
<i>in millions</i>		3rd Qtr '05	Aug '04 Forecast
1	FY 2005 ANR Forecast	\$ (393)	
2	FY 2006 FB/SN CRAC Threshold	\$ (334)	
3	FB/SN CRAC Dollars	\$ 59	\$ 125
4	FY 2006 Treasury Payment Probability (92.8% Target)	95.9%	96.0%
7	Ending FY 2006 Agency Reserves (Expected Value)	\$ 507	\$ 351
8	Ending FY 2006 PBL Reserves (Expected Value)	\$ 350	\$ 182

	FY 2005		FY 2006	
	CRAC 7	CRAC 8	CRAC 9	CRAC 10
1 LB CRAC (Non-SLICE)	21.66%	25.77%	24.40%	28.51%
2 FB CRAC	11.16%	11.16%	4.41%	4.41%
3 SN CRAC	0.00%	0.00%	1.75%	1.75%
4 Non-Slice Rate Total	32.82%	36.93%	30.56%	34.67%
5 Average Annual Percentage Adjustment	34.87%		32.62%	
6				
7 % Change Compared to FY 2005			-1.67%	
8 Non-Slice Rate	\$ 30.12		\$ 29.61	
9 Change in Rate Compared to FY 2005			\$ (0.50)	



FY 2002 – 2006 Power Rates

FY 2006 PF-02 Adjusted Rates





Summary of Public Comment & Responses

- The comments received were unanimous in the call for the Administrator to use his discretion to zero out the SN CRAC in order to achieve a 2.5% rate reduction in FY 2006 compared to FY 2005 rates regardless of the uncertainties in FY 2006.
 - **Why didn't the Administrator set the Safety Net CRAC adjustment to zero?**
 - *Because of an assessment of the uncertainties the agency faces and the resulting expectation that including these uncertainties in the modeling would reduce the Treasury Payment Probability below the 92.8 percent threshold.*
 - *The usual uncertainties of hydro conditions, secondary energy prices and generation outages continue in FY 2006. Other uncertainties are present as well, such as the possibility of court-ordered spring spill and flow augmentation on top of the summer spill ordered in FY 2005, litigation risks and exposure to public utility requests for benefits through the Residential Exchange Program.*
 - *Current high natural gas prices are creating high prices for surplus power, which helped BPA end FY 2005 with more solid financials than expected just six months ago. If, however, because of low water or loss of generation in FY 2006, BPA has to purchase power in this market, the agency would face potentially huge costs.*
- In addition, concerns were raised around the possibility that a rate increase caused by the FB CRAC true-up would result in a larger increase on customers with summer loads. The Administrator should use all of the means at his disposal to eliminate the possibility of an FB CRAC True-up.
 - **What can be done to minimize the risk of a large FB CRAC True-up?**
 - *The true-up mechanism is based on the comparison of audited actuals for FY 2005. Any uncertainty greater than plus or minus \$5 million between the 3rd quarter review and the end of the fiscal year will affect the true-up either positively and negatively. There is no tool in the FB CRAC methodology that allows the Administrator to modify the true-up after the fact.*



FY 2006 FB CRAC True-up

- The GRSPs include a true-up to the FB CRAC for changes between audited ANR and the 3rd Quarter Review ANR forecast.
- Because the FB CRAC percentage is not at the maximum of 13.2 percent (or zero), there is a possibility of an FB CRAC true-up for FY 2006 for the second half of the fiscal year, if FY 2005 audited actuals are more than \$5 million different from the ANR that was the basis for the FB CRAC.
- A \$13M change in modified net revenues would produce a 1 percentage point change in the FY 2006 FB CRAC.
- The FB CRAC is set to collect the maximum dollar amount of the difference between the August forecast of the FY 2005 ANR and the FB CRAC threshold before the SN CRAC percentage is calculated.
- The FB CRAC true-up would capture approximately 2/3 of the difference between the FY 2005 audited ANR and the ANR used for the FB CRAC. The reason it is only 2/3 is because the FB CRAC revenue base includes Slice customers, but Slice customers do not pay FB CRAC, so the adjustment would only collect the amount owed by non-slice customers.
- There is no true-up provision for the SN CRAC.

When audited actuals are available, in January in the year subsequent to the FB CRAC being implemented, the AANR will be compared to the ANR forecast used to implement the FB CRAC. If the forecasted amount is within \$5 million of the AANR (the tolerance), no true-up will be made. If AANR differs from the forecast by more than the tolerance, an adjustment will be made to customer bills for the second half of the year.

- 2002 General Rate Schedule Provisions, Revised FY 2004



BPA's Financial Disclosure Information

1. "This information is being released externally by BPA in September 2005 as an ad hoc report or analysis generated for a specific purpose. The information provided is based upon data found in Agency Financial Information but may not be found verbatim in an External Standard Financial Report of other Agency Financial Information release."